

**POLICY
MONITOR**

June 10 - 14, 2013

The Week in Review

ON THE ECONOMIC FRONT

Exchange Rate: Despite interventions by the Central Bank, the Real exchange rate is still BRL\$2.15 to the dollar. Internal and external factors have led the currency to reach the most undervalued rate since April of 2009.

Tax on Receipt: On Monday, Law 12.741/12 entered into force, mandating that all service providers and commercial establishments print in invoices and receipts, the total amount of taxes being paid. However, thus far, the government has not decided how to implement the new Law. It has determined, however, that the recently-created Micro and Small Enterprises Secretariat will coordinate the process.

Argentina: Logistics company ALL was not the first to demonstrate reluctance regarding the political and economic outlook for Argentina. Vale and Duratex have retracted their teams voluntarily. Odebretch, Andrade Gutierrez and Camargo Correa have also reduced their operations due to lagging Argentine market.

Pre-Salt Bidding Round: The first bidding round for the exploration of *pre-salt* areas will be held in Rio de Janeiro on October 22. The requirement should be published in a draft-edict later this month and should include the minimum exploratory program, minimum local content and estimated investments. The area to be put to bid will be Libra in the production sharing regime, where Brazilian company Petrobras must operate and enter with at least 30% of participation. The additional 70% will be up for grabs.

Bidding Rounds: The 12th bidding round of *non-pre-salt* oil fields will be held in November 28 and 29.

Mining Code: The launch of the new regulatory framework for mining will be in June 18 on the Planalto's Palace.

ON THE POLITICAL FRONT

President Rousseff's approval: On Saturday, the latest Datafolha poll showed that President Rousseff's approval rating dropped from 65% to 57%. Despite the 2% error margin, the drop is significant. The poll accounts inflation, the *Bolsa Família* incident and the drought in the Northeast as reasons for the drop. Even so, if the presidential election were today, President Rousseff would still beat Marina Silva, Eduardo Campos and Aécio Neves.

Public Hearing: The Ministers of Foreign Relations, Antônio Patriota, and of Development, Industry and Foreign Trade, Fernando Pimentel, were summoned to a public hearing in the Senate's Foreign Relations committee to discuss the creation of the Pacific Alliance and impacts on the South-American integration and Mercosur. The date of the hearing has not been announced yet.

US new Ambassador to Brazil: Last Friday, Brazil granted approval to Ms. Lílíana Ayalde as the new Ambassador of the US to Brazil. Her appointment was supported by the current Ambassador Thomas Shannon. One of her first duties will be to manage the purchase of new fighter aircraft for the Brazilian Air Force which Boeing is one of the competitors.

New WTO Ambassador: Brazil is considering appointing the Brazilian Ambassador to Japan, Marcos Bezerra Galvão, to take over the ambassadorship of the World Trade Organization (WTO). The post will be vacant in September when Roberto Azevedo assumes the organization's Director-General position.

Mobile Payment: The government is considering implementing the monthly *Bolsa Família* payment through mobile means of payment. The regulatory framework for m-payments is currently being discussed by Congress and could generate cost reduction gains in the delivery of the monthly allowance for families located all around the country. The m-payment Provisional Measure (MP) has to be approved by Congress by September 30.

Confederation's Cup: On Saturday, Brasília will host the opening game in a match between Brazil and Japan. The Cup will last until June 30. Although Congress will not officially be in recess, parliamentary activity is likely to reduce substantially.

São Paulo: The Vice-Governor of São Paulo, Guilherme Afif, was discharged from his post in the Micro and Small Enterprises Secretariat to take over the governorship of the state. The state legislature is following through on the process of impeachment of Afif. State congressmen claim Afif cannot hold both offices.



Government

Regulation

On June 3rd, President Rousseff affirmed that she would reduce the use of Provisional Measures (MP) as a regulatory tool. Nonetheless, Rousseff issued on Thursday the 5th MP since that statement. The new [MP 620/2013](#) regulates the three different issues as listed below. The deadline to present amendments is June 18.

Tax on Receipts

The MP establishes that the oversight of the application of the [Law 12.741/12](#) over tax on receipts will start in 12 months. The Administration has not yet determined how to implement the new law and only this week decided to put in charge the recently-created Micro and Small Enterprises Secretariat to coordinate the process. Estimates are that new receipts will cost small companies BRL\$10 billion.

Financial support to access culture – “Vale Cultura”

The governmental program “Vale Cultura” ([Law 12.761/12](#)) provides registered private sector workers who earn one to five minimum wages, a BRL\$ 50 monthly financial support to purchase cultural products or to access cultural services. The topic has been the issue of heated debates as questioning arose of whether the benefit would be valid for paid TV and magazines. The MP extends this benefit to the companies that operate in Presumed Profit System which is based on a presumed net profit.

Housing program “Minha Casa, Minha Vida”

An extension of the housing program “Minha Casa, Minha Vida” to home appliances in discussion over two years has been finally announced on Wednesday by President Rousseff. The program establishes that homeowners will receive special funding for the purchase of home appliances. The National Monetary Council (CMN) will define the goods, maximum value, terms and conditions for funding. The program is sponsored by the federal controlled bank (Caixa Econômica Federal) and totals an investment of BRL\$ 8 billion.

Framework on Temporary Hiring

On Tuesday, the Minister of Labor and Employment, Manoel Dias, and Gilberto Carvalho, Chief-Minister of the President’s General Secretariat held a meeting with members of trade unions to discuss bills in Congress regarding temporary and external hiring. The main idea is to create a single bill to facilitate the process of approval—there are currently numerous bills on this subject.

The focus of discussion is Bill [4330/2004](#), currently awaiting vote of the Committee of Constitution of the House, highly criticized by labor unions. Ministers have invited Congressmen and business people to the negotiation table. The next meeting is scheduled for July 7.

Workers’ demands

The discussion on the new regulation on temporary and external hiring is part of a list of issues the Administration committed to discussing with the trade unions last May. Members of trade unions gave to the Ministers a calendar list of issues:

- » June: domestic employment, regulation of temporary hiring, national system of employment, technical education programs;
- » July: Regulation pertaining to the International Labor Organization Convention 151 (negotiation of the collective agreement for civil servants), employee turnover and rural land reform;
- » August: informal work, budget for health, end of the Social Security Factor and productive investment;
- » September: reduction of the working hours, income tax and minimum wage in 2015.

Rousseff is struggling to bring back the unions into her support base.



Tax & Investments

Tax Reliefs

The House approved [MP 609/13](#) which reduces the PIS/PASEP and COFINS taxes from staple food items (*cesta básica*). Goods now exempt include:

- » Meat
- » Coffee
- » Sugar
- » Butter
- » Soap
- » Toilet Paper

The measure was launched by Rousseff in March due to popular concerns regarding higher inflation in food items. The Senate must vote the measure by July 5.

Energy & Environment

Ethanol Fuel

On Monday, the Inter-Ministerial Council for Sugar and Alcohol published its [Resolution 2/2013](#) requesting the National Monetary Council's (CMN) to review the conditions for funding the storage of ethanol fuel during the 2013/2014 period. Main points include:

- » Beneficiaries: sugar-cane mills, distilleries, cooperatives of producers and trading companies of ethanol, and fuel distributors registered at the National Agency of Petroleum, Natural Gas and Biofuels (ANP)
- » Value of funding: multiplying the volume of ethanol to be financed by the reference price: BRL\$ 1.37 (one real and thirty-seven cents) per liter of anhydrous ethanol; and, BRL\$ 1.21 (one real and twenty one cents) per liter of hydrous ethanol.

Health

Public Consultation on food recall

On Monday, the National Agency for Health Surveillance (ANVISA) published [Public Consultation 21/2013](#) with a draft proposal of regulation on the recall of food items and the required communication to the Agency and consumers.

The rule will apply to establishments that perform activities of production, industrialization, fractioning, distribution, import or trade, including beverages, bottled water, raw materials, ingredients, food additives, and packaging. The company will have to inform the recall to the Agency in a maximum of 24 hours.

Comments can be submitted from June 17 through August 15.

ANVISA's new member of the Board of Directors

On Thursday, the Committee of Social Affairs of the Senate approved the presidential appointment of Ivo Bucaresky to the position of Director of the Agency, replacing Agnelo Santos Queiroz, current Governor of the Federal District. The Floor will conclusively appreciate it. Bucaresky is known to be a technical person, however, he has a history of not being business-friendly. Despite being affiliated to PT, his nomination took unusually long to be voted by the Committee.

Did you know?

The **Parliamentary Inquiry Commission (CPI)** is a constitutional tool of the Legislative Branch to conduct investigations on public issues.

CPIs can hear testimonies, request data from financial institutions, and break banking secrecy, tax data and telephone data. However, it cannot order imprisonment (only in flagrant cases); home search; seizure of documents; among other limitations.

It also cannot investigate the President of Republic.

In general, CPIs can be a burden to companies that have to testify regarding their activities.

Currently, the quality of service given by phone providers has been on the hot-seat. There are over 14 CPIs in state and municipal legislatures.



The Pulse

Oil & Gas: The Role of Petrobras

Brazilian oil company Petrobras is openly traded, with the majority of stocks owned by the Brazilian government, and with a presence in 25 countries. In 2012, the company profited 36% less than in 2011 due to poor decisions by former CEOs, which led to the entrance of Graça Foster as CEO in January of 2012.

Foster is a personal friend of President Rousseff and a career civil servant. Before taking over the presidency, Foster worked as a Petrobras engineer for over 30 years. She has successfully negotiated with the government four hikes in the price of diesel oil and two for gasoline—a necessary measure to equate Brazil oil's prices with the external market. Further, Foster has reduced stockowners gains and respected the difference between preferable and ordinary stocks, both innovative measures in the company. Despite Petrobras poor performance recently, the CEO is still seen positively in the market, most notably due to her transparent position in dealing with complex situations.

The harsh measures, however, have just begun taking effect as the first trimester saw a profit of BRL\$7.6 billion—a good start, albeit 17% smaller than 2012.

Bidding Rounds

After a five-year drought of bidding rounds due to political fights on the sector's regulatory framework, the government has already conducted one bidding round and announced two more for this year. Investors' appetite was proven high when the 11th round, held last month, rose a historic all-time high of BRL\$2.8 billion. Petrobras alone won 34 blocks and paid BRL\$537 million—the biggest value and the most number of blocks than any other company in this round.

Expectations are high for the 1st bidding round for pre-salt fields set for October 22. This round will occur under the profit sharing regime ([Law 12.351/2010](#)) in which the Union owns the oil and companies get the restitution of the costs of the exploration, as well as a participation in the exceeding oil of the exploration activities. The Law established Petrobras as the sole operator, meaning that it controls exploration activities and its decisions supersedes others.

Furthermore, Petrobras can also join the consortium of investors and its participation was set by that Law in at least 30%, without any changes in its role of sole operator of the pre-salt oil fields. The additional 70% can be distributed among other companies, including Petrobras, with a minimum participation of 10% for each company in the consortium. Therefore, Petrobras can have over 30% of participation in the consortium and Foster has recently announced as Petrobras' goal.

The ANP must publish the bidding announcement with the sharing contract model and put it to public consultation. This will be the country's first experience with that type of contract.

The 12th round of post-salt field is also likely to occur later this year. According to the government, this round will focus on the exploration and production of shale gas. This can prove to be more difficult than expected as Congress has begun the discussion on the socio-environmental safety of shale gas exploration. The Legislative Branch might put obstacles on the topic, which might affect the round.

As widely known, Congressional members have successfully halted bidding rounds since 2008 with the debates of the new oil royalties' distribution rules. The Royalties Bill, which established a more equal division among producing and non-producing states, has been partially vetoed by the President and is awaiting the overriding debate in Congress. Although Congressmen likely have the majority to take down President Rousseff's veto, there are 3.000 vetoes that must be debated beforehand.

President Rousseff's decision to hold rounds without a new decision on the regulatory reheated the oil and gas market in Brazil. However, when it comes to pre-salt fields and shale gas that might prove to be even more difficult as those are new fields of exploration.

